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Concluding Remarks by the Chairman
Common Policy Issues of the CFA Franc Countries
Executive Board Seminar 94/11 - November 18, 1994

Executive Directors welcomed the opportunity to discuss the common issues of program design and policy coordination facing the CFA franc countries and several aspects of common currency arrangements in general, including their long-term implications. They noted that the January 1994 devaluation of the CFA franc and the comprehensive adjustment programs launched by those countries had provided a historic opportunity for them to achieve sustainable economic growth, as well as steady progress toward fiscal and external viability and further regional economic integration. They were encouraged by the early evidence in a number of CFA franc countries of a resurgence of economic growth and export activities, the decline in inflation after the initial surge following the devaluation, the return of flight capital, and the strong improvement in the net foreign asset positions of the two central banks. The CFA franc countries would need to implement vigorously all the essential elements of their comprehensive adjustment strategy, with emphasis on both financial stabilization and structural reforms, in order to derive the maximum benefits of broad-based regional economic recovery and integration. Moreover, in program design for the individual countries, account would have to be taken of their different starting points. Almost all Directors said that, in pursuing adjustment policies, the authorities should have in mind the paramount concern of maximizing the upside and minimizing the downside risks of membership in a currency zone.

The reduction of government fiscal deficits and imbalances in the public enterprise sector was considered a key instrument for establishing an environment conducive to private sector growth, achieving progress in the reform of the financial sector, and attaining internal and external financial viability. In the tax area, the CFA franc countries needed to simplify, rationalize, and lower the burden of foreign trade taxation, while strengthening efforts to reduce exemptions, increase tax collections, and fight corruption. It would be important to shift progressively away from export taxes to alternative forms of direct taxation and, more generally, toward increased reliance on domestic direct and indirect taxes. To facilitate that shift, early actions should be taken to improve tax administration and to preserve the revenue base. Technical assistance from the Fund would help assist these countries in broadening their tax base. In the public expenditure area, the authorities of the CFA franc countries needed to adhere to strict wage restraint, shift expenditure priorities to urgent social and investment objectives, and maintain a rigorous and transparent system of expenditure control. In that context, they would have to press ahead forcefully with civil service reforms. Several Directors noted that the World Bank had an essential role to play in assisting the authorities of the CFA franc countries with periodic reviews of public expenditure and public investment.

In the financial sector, decisive steps would have to be taken to address the problems of financially distressed banks, and to develop the regional money and interbank markets, as well as a broad-based market for government securities. Those steps were needed to move toward a market determination of interest rates, develop the tools of indirect monetary control, and respond effectively to surges in bank liquidity.

Directors noted that past experience had shown that tight financial policies alone were not sufficient, but had to be complemented by far-reaching structural reforms to ensure a durable recovery and diversification of the economies, and they emphasized the role of the World Bank in assisting the countries with the design and implementation of those reforms. It was important to proceed soon and forcefully with the restructuring or privatization of public enterprises and eliminating monopolies. The problems in that area should not be allowed to slow the process of fiscal adjustment, to pose risks for the banking system, or to impede the expansion of private sector activity. It was also noted that the ability to adjust to external shocks would be enhanced by greater flexibility in wages and in hiring practices. Directors recognized that there were social costs connected with labor retrenchment in public enterprises and the civil service, which would need to be accompanied by severance payments and training schemes. For the banking system, the risk of reverting to state-directed interventions and subsidized lending operations had to be avoided, while the strengthened procedures for bank supervision would need to be adhered to strictly.

The attention being given to accelerating the process of economic and monetary integration in the CFA franc countries was welcomed, as this would help them reap more fully the benefits of the existing monetary unions. The potential for intra-zone trade was expected to be enhanced by a further liberalization of economic activity in each member country, as well as by the stepped-up efforts in both unions to establish a common external tariff, remove intra-zone trade barriers, and harmonize domestic tax systems within a framework of multilateral trade liberalization. In that context, Directors welcomed the steps taken to adopt a system of multilateral surveillance, based on convergence criteria aimed at ensuring the sustainability of each member government's fiscal and external position. They stressed that in the framework of regional policy coordination, the authorities of both monetary unions would need to strengthen their ongoing efforts to improve the macroeconomic database, with a view to facilitating multilateral surveillance and a timely response to changes in the economic environment.

Directors noted with satisfaction that the CFA franc countries continued to maintain exchange systems free of restrictions on payments and transfers for current international transactions, and several Directors therefore urged those countries to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement as soon as possible. They also urged those countries to terminate the suspension of the repurchase of CFA franc bank notes.

Directors encouraged the staff to continue to review developments and prospects in the CFA franc countries on a regular basis, particularly in the context of Fund-supported programs. Moreover, a brief overall assessment of the experience of those countries in 1994 would be conducted as more evidence became available, with a view to drawing lessons for program design. The design of Fund-supported programs would need to evolve in line with the changing and more complex environment, and to take increasingly into account the regional dimension, including the situation of countries that were not members of the CFA franc zone.